

2022 YEAR-END VACANCY REPORT

Ann Arbor Area Office & Flex



Swisher
C O M M E R C I A L

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SWISHER COMMERCIAL

2022 YEAR-END VACANCY REPORT



Dear Friend,

Enclosed is **Swisher Commercial's** 30th annual survey of vacancy rates for office and flex space in the Ann Arbor area for year-end 2022. We surveyed 305 buildings of 5,000 square feet or larger, totaling **11.6 million square feet** of space. Our report includes a breakdown of vacancy rates by sub-market and charts the vacancy trends over the last 30 years. This year's numbers reflect the continued impact of the COVID pandemic as well as other market forces that influence commercial real estate in Washtenaw County, Michigan.

We hope this report will help you better understand the current market and assist in planning your real estate decisions. Swisher Commercial extends our wishes of good health and prosperity to our community, and we welcome your inquiries and requests for assistance related to your commercial real estate needs.

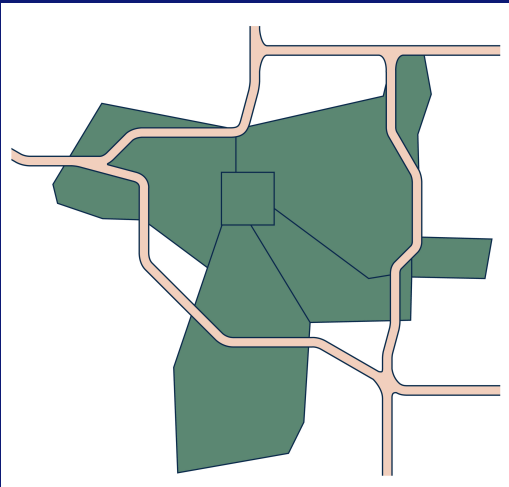
Bart Wise, President & CEO
Charlie Koenn
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Douglas Smith, CCIM

Tony Caprarese
David L. Hamilton, CCIM
Michael Giraud
Jason Um

Michael Jurgenson, CCIM
Randy Maas
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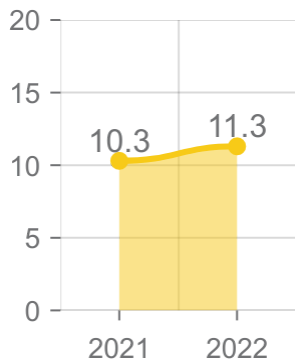
According to Swisher Commercial’s analysis of eight sub-markets, five increased in vacancy, two decreased in vacancy and one sub-market remained unchanged.

This report includes a detailed analysis of each of the eight sub-markets.



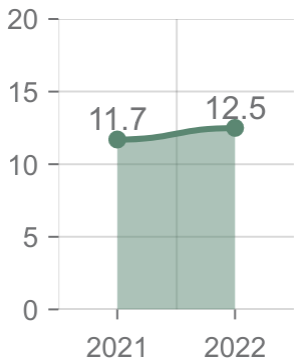
ANN ARBOR OFFICE/FLEX MARKET

As of December 31, 2022, the total market vacancy rate for office and flex space is 11.3%, somewhat higher than the 2021 vacancy rate of 10.3%. (+1.0%)



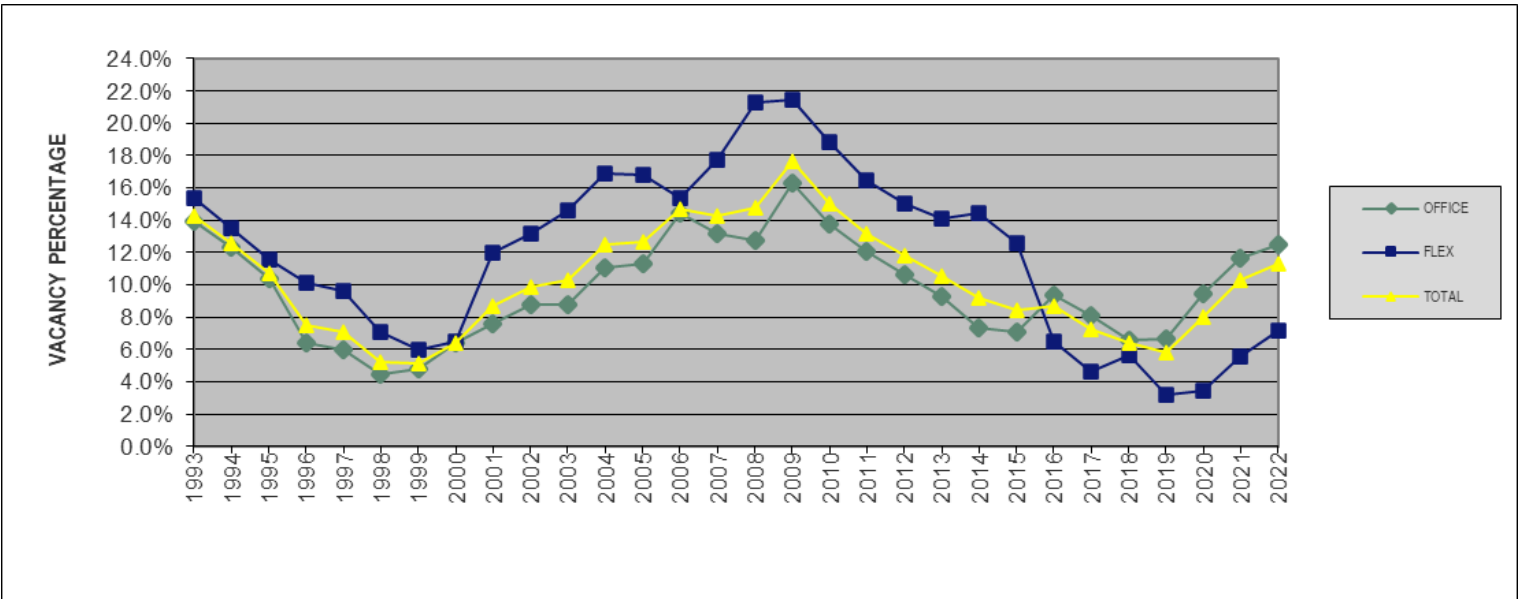
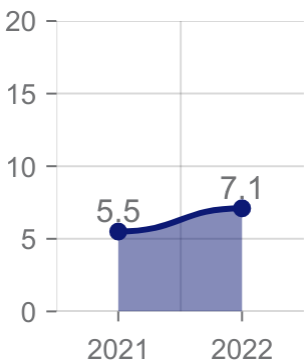
OFFICE

The office vacancy rate increased from 11.7% in 2021 to 12.5% this year. (+0.8%)



FLEX

In the past year, flex vacancy rates increased from 5.5% to 7.1%. (+1.6%)



STATISTICAL SUMMARY

Office

Area	# Bldgs	Gross SF	Vacant SF	YE 2022 Vacancy %	YE 2021 Vacancy %	% Change
Downtown	67	1,684,037	249,252	14.8%	14.2%	0.6%
North	34	2,494,689	214,652	8.6%	5.7%	2.9%
East	35	644,683	71,040	11.0%	13.1%	-2.1%
CGMA	9	470,484	36,910	7.8%	13.1%	-5.3%
South	67	3,311,908	478,783	14.5%	13.9%	0.6%
West	25	508,360	86,459	17.0%	14.6%	2.4%
Total	237	9,114,161	1,137,096	12.5%	11.7%	0.8%

Flex

Area	# Bldgs	Gross SF	Vacant SF	YE 2022 Vacancy %	YE 2021 Vacancy %	% Change
South	51	1,896,112	160,557	8.5%	6.5%	2.0%
West	17	581,400	16,040	2.8%	2.8%	0.0%
Total	68	2,477,512	176,597	7.1%	5.5%	1.6%

Office & Flex

Area	# Bldgs	Gross SF	Vacant SF	YE 2022 Vacancy %	YE 2021 Vacancy %	% Change
Downtown	67	1,684,037	249,252	14.8%	14.2%	0.6%
North	34	2,494,689	214,652	8.6%	5.7%	2.9%
East	35	644,683	71,040	11.0%	13.1%	-2.1%
CGMA	9	470,484	36,910	7.8%	13.1%	-5.3%
South	118	5,208,020	639,340	12.3%	11.2%	1.1%
West	42	1,089,760	102,499	9.4%	8.0%	1.4%
Total	305	11,591,673	1,313,693	11.3%	10.3%	1.0%

ASSUMPTIONS

1. AREA

Downtown includes D1 & D2 zoned bldgs.
North includes Plymouth Rd corridor & Ann Arbor Twp.
East includes Washtenaw, Packard and Carpenter Rds.
South includes S. Industrial, S. Main, S. State, Pittsfield Twp, Briarwood, & Airport areas.
West includes Scio Twp, W. Liberty & Jackson Rd areas.
CGMA is the Clark-Golfside Medical Area, St. Joseph Mercy Hospital campus & the Huron River Drive/Clark-Golfside area.

2. BUILDINGS

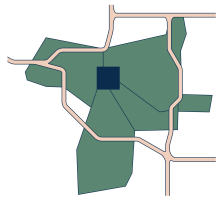
Includes all identified non-owner-occupied buildings over 5,000 sf.

3. FLEX

Defined as high-bay type buildings, often combining office, high-tech, research, warehouse & similar.

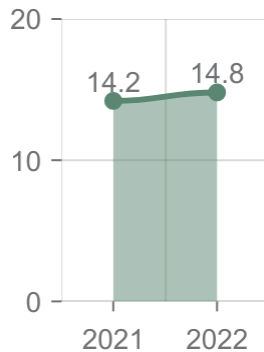
4. % CHANGE

A negative denotes a decreasing vacancy rate.
 Calculation is YE 2022 rate less the YE 2021 rate.

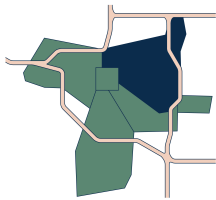


THE DOWNTOWN OFFICE AREA (DOA)

The DOA vacancy rate increased from 14.2% to 14.8% in 2022. (+0.6%)

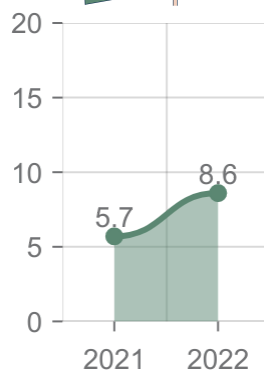


The **Downtown Office Area (DOA)** vacancy rate increased slightly from 14.2% in 2021 to 14.8% in 2022. The entirety of this increase resulted from the loss of 20,000+ square feet of occupancy in each of two downtown buildings. Vacancy decreased in 15 of the 67 DOA buildings surveyed. New demand for DOA office space was sparse again in 2022, though not completely absent. Anecdotally, Swisher brokers note an incident of an Ann Arbor suburb company reducing its office footprint and moving into a smaller (but higher rate/sf) DOA office building. While DOA office buildings quote some of the highest rental rates in Ann Arbor and have the added cost of employee parking, some businesses will find the DOA more affordable than in past years because they may be able to rent a smaller suite to satisfy their needs. Our brokers report that in the fourth quarter of 2022 there have been multiple 20,000+ square foot users showing interest in DOA vacant office suites.

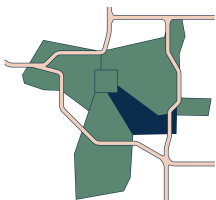


THE NORTH OFFICE AREA (NOA)

The NOA vacancy rate increased from 5.7% to 8.6% (2.9%)

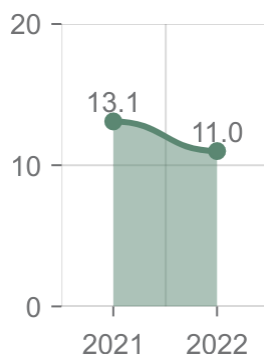


The **North Office Area (NOA)** vacancy rate increased from 5.7% to 8.6% in 2022. In 2021 we reported a decreased vacancy rate in the NOA and we pondered how this could be, during the pandemic. Now this year's 2.9% vacancy rate jump resembles the 2021 vacancy rate increases seen in other sub-markets, and for similar reasons, delayed by one year. As an example, there is an NOA building that moved from full occupancy in 2021 to 60,000 sf vacancy in 2022, and we are told that the occupant of this building did not retain office space elsewhere but instead implemented a work-from-home approach with its employees. Overall, the NOA has nine buildings offering vacant suites measuring 10,000 sf or larger. Historically the NOA has sustained lower than average vacancy rates, and the 8.6% NOA vacancy rate remains the second lowest of all office sub-markets tracked in this report.

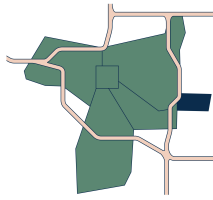


THE EAST OFFICE AREA (EOA)

The EOA vacancy rate decreased from 13.1% to 11.0% (-2.1%)

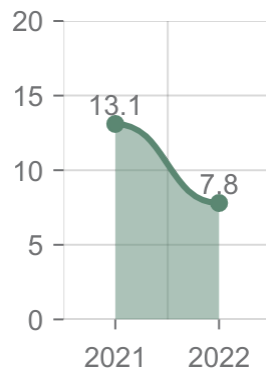


The **East Office Area (EOA)** vacancy rate decreased two full percentage points, from 13.1% in 2021 to the current rate of 11.0%. Eight buildings in the EOA decreased in vacancy, while eight other buildings increased in vacancy. The EOA continues to attract small businesses who need to meet clients/customers at their office sites. Some of these are office tenants leaving higher rent sub-markets in favor of lower rents and smaller suite sizes offered by the EOA. As experienced in 2021, there was an influx of small independent businesses such as mental health professionals, financial consultants, personal services, and others.

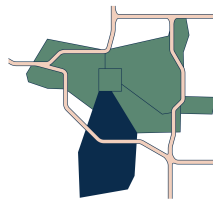


THE CLARK-GOLFSIDE MEDICAL OFFICE AREA (CGMA)

The CGMA vacancy rate decreased from 13.1% to 7.8%. (-5.3%)

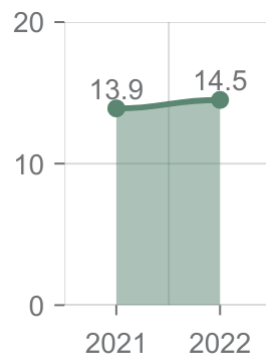


The **Clark-Golfside Medical Area (CGMA)** vacancy rate decreased from 13.1% to 7.8%, dropping to the lowest vacancy rate of the six office sub-markets in our survey. The buildings in the CGMA specialize in suites with medical and dental improvements and other office suites for health-related businesses. While there continue to be many independent medical and dental professionals in the CGMA, entire buildings and condominium units continue to get swallowed up and occupied by larger medical institutions. Becoming owner-occupied, they are then eliminated from our annual vacancy survey.

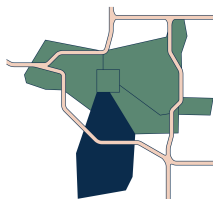


THE SOUTH OFFICE AREA (SOA)

The SOA vacancy rate increased from 13.9% to 14.5% (+0.6%)

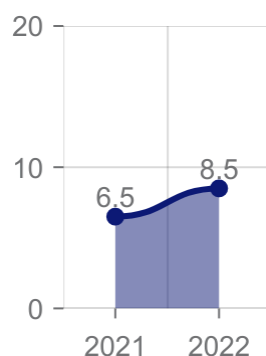


The South Office Area (SOA) vacancy rate increased from 13.9% to 14.5% in 2022. Within the SOA, 13 buildings had increased vacancies while eight buildings decreased in vacancy. Notably, three SOA buildings had sizable decreased vacancy, of 10,000 square feet or more, while one SOA building that was fully occupied in 2021 is now reporting 35,000 square feet vacant. We surmise the SOA, like other office sub-markets, is riding the roller coaster of losing occupancy because of work-from-home practices.

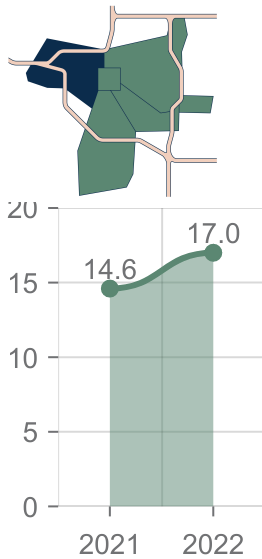


THE SOUTH FLEX AREA (SFA)

The SFA vacancy rate increased from 6.5% vacancy in 2021 to 8.5% this year. (+2.0%)



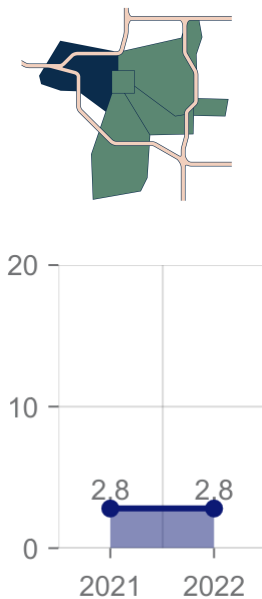
The **South Flex Area (SFA)** vacancy rate rose from 6.5% vacancy in 2021 to 8.5% this year. Demand in the 2022 SFA market did not match the 2021 appetite for absorbing flex space. There are now seven SFA buildings with 10,000 sf or more vacant, with brokers reporting very little new activity since spring of 2022. So why is the SFA market different from the WFA, whose vacancy rate remained at a low 2.8% in 2022? Most notably, the WFA buildings tend to be more light-industrial in nature, with more warehouse/shop space, while SFA buildings tend to be more high-tech oriented, having suites with a higher percentage of office space, more upscale finishes, and higher quoted rental rates. Early in 2022, there were a number of businesses touring and showing interest in the vacant SFA buildings. However, demand for SFA space has flattened since then, possibly tied to the arrival of high inflation and recession fears that came to the forefront in the spring of 2022.



THE WEST OFFICE AREA (WOA)

The WOA vacancy rate increased from 14.6% to 17.0% in 2022, the highest vacancy rate of the eight sub-markets. (+2.4%)

The **West Office Area (WOA)** vacancy rate increased from 14.6% to 17.0% in 2022, the highest vacancy rate of the eight sub-markets. Because the WOA is such a small market overall, a single large building with high vacancy can have a dramatic effect on the total WOA vacancy rate. In 2022 one building does explain the WOA vacancy increase with its loss of tenancy totaling 15,000 square feet. Six of the 23 WOA buildings decreased in vacancy, though the decreases were minimal.



THE WEST FLEX AREA (WFA)

The WFA vacancy rate remains unchanged at 2.8%, the lowest vacancy rate in the market. (0.0%)

The **West Flex Area (WFA)** vacancy rate remained unchanged at 2.8% this year, again the lowest vacancy rate in the market. Of the entire 581,400 square foot WFA, there are only 16,040 square feet vacant. The WFA offers flex/shop suites in smaller sizes, which are in high demand, and the supply of WFA space is very tight even with rental rate increases. Businesses that use heavy equipment can't work from home, thus leading to a high demand for light-industrial space. WFA suites with predominantly high-bay shop space and garage doors get rented very quickly, whereas flex suites with a higher percentage of office are in less demand. An indicator of the demand is the arrival of a new 35,000 square foot light-industrial speculative development underway in the WFA, with completion of the new lease space expected in the summer of 2023. In addition, there is high demand by buyers of WFA buildings. Noteworthy, among the sales this year, approximately 46,000 square feet of lease space went to owner/users, and therefore was dropped from our survey of the WFA.



SALES ACTIVITY

As measured by Swisher Commercial's tracking of its own transactions, sales volume was strong in 2022. Though it was not quite as strong as 2021, the 2022 sales volume was better than any one of the five years prior to 2021. As in 2021, the high cost of new construction, due to the cost and availability of materials and labor, motivated businesses to buy existing structures for renovation rather than building from scratch. The dominant sector among building sales was light-industrial.

LEASING DEMAND & ABSORPTION

It has been nearly three years since the start of the COVID pandemic. The work-from-home practice it caused or catalyzed is seeing a range of adoption. Some businesses still operate better with workers in the office; some have evolved flexibility, combining work from home with part-time on-site work; and other businesses have significantly decreased their use of office space or even dropped their leases altogether. We have seen that it takes time for these changes to sort themselves out, and the sorting-out is not over. This pandemic-related uncertainty, as well as uncertainty related to the economy, have put a damper on demand for office space and high-tech flex space compared with what we had been accustomed to pre-COVID. There are listings for vacant office suites and some vacant flex suites that have been on the market since before March of 2020. In general, showings of office space and leasing activity are still well below pre-pandemic norms.

Additionally, labor shortages, supply chain problems and the economy of 2022 have significantly increased the cost of renovations necessary to prepare a vacant suite for a new tenant. This important economic factor in a lease transaction can be a big challenge when the overall leasehold improvement price tag comes in significantly higher than expected. The higher cost of leasehold improvements is an added burden to Landlords already struggling to fill vacancies.

Business owners and building owners are responding to these challenges in a variety of ways, from minor adjustments, to rethinking long-held patterns of office use. As always, innovative businesses continue to be created and expand in Ann Arbor and continue to absorb its office and flex space.

The 2022 overall net absorption was negative 107,321 square feet. The office market contributed 66% of the negative net absorption while the flex portion of the market made up 34% of the total negative net absorption.



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building relationships is our priority.

Swisher Commercial is dedicated to helping our clients make informed real estate decisions. Our brokerage efforts continue to yield creative solutions that culminate in successful real estate transactions. We understand the Southeast and South Central Michigan markets and are committed to serving the long-term needs of the business community. We look forward to assisting you with your leasing, purchase/sale, investment, property management and advisory needs in the future.

If you have any questions or suggestions feel free to contact Swisher Commercial at (734) 663-0501, e-mail at info@swishercommercial.com, or visit our website at www.swishercommercial.com.

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